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SUBJ: SECURITY ASSISTANCE OBJECTIVES AND GUIDELINES FOR PERU

REF: A. STATE 015489, B. FY 77-81 POM FOR PERU, MARCH 11,
1975, C. LIMA A-54, APRIL 4, 1975

1. THIS CABLE RESPONDS TO THE REQUEST CONTAINED IN PARAGRAPH
3B(1) OF REF A FOR AN OVERALL ASSESSMENT OF THE VARIOUS
ELEMENTS OF U.S. SECURITY ASSISTANCE PLANNED FOR PERU FOR
FY 76 AND FOR AN ASSESSMENT OF THE IMPACT ON SECURITY ASSISTANCE
REQUIREMENTS OF OTHER ECONOMIC AND MILITARY ASSISTANCE PROGRAMS.

2. U.S. SECURITY ASSISTANCE TO PERU HELPS TO LIMIT SIMILAR
COOPERATION AND TIES BETWEEN PERU AND COMMUNIST COUNTRIES AND
KEEPS OUR LINES OPEN TO THE PERUVIAN MILITARY. IN ADDITION,
IN THE LONG RUN SUCH ASSISTANCE SERVES TO MAINTAIN ACCESS
TO THE NEXT GENERATION OF MILITARY LEADERS.

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3. HOWEVER, IT SHOULD BE NOTED THAT REGARDLESS OF U.S.

MILITARY ASSISTANCE, THE GOP WILL CONTINUE TO SEEK A RE-STRUCTURED INTER-AMERICAN DEFENSE SYSTEM. IN ADDITION, IN ORDER TO BOLSTER ITS FREEDOM OF CHOICE AND INDEPENDENCE, PERU WILL NOT RELY EXCLUSIVELY ON AMERICAN ARMS.

4. FY 77-81 POM (REF B) HAS DESCRIBED IN DETAIL HOW THE ELEMENTS OF OUR MILITARY ASSISTANCE PROGRAM AID THE EFFECTIVENESS OF THE PERUVIAN MILITARY FORCES. THE POM WAS PREPARED IN CLOSE COOPERATION WITH THE EMBASSY AND EFFECTIVELY DESCRIBES THE NEED FOR, EFFECTIVENESS OF, AND INTERRELATIONSHIP BETWEEN VARIOUS ASPECTS OF THE U.S. MILITARY AID PROGRAM FOR PERU. WE HAVE NO FURTHER COMMENT.

5. ACCORDING TO THE RECENTLY PUBLISHED GOP BUDGET, THE THREE PERUVIAN MILITARY SERVICES' BUDGET FOR DEFENSE EXPENDITURES AMOUNTS TO \$871 MILLION DURING THE CURRENT BIENNIUM, 1975-1976. THIS REPRESENTS 2.8 PERCENT OF ESTIMATED GNP FOR THE BIENNIUM (A DECREASE FROM THE 3.3 PERCENT FIGURE IN 1973-1974) AND 15.2 PERCENT OF THE TOTAL BIENNIAL BUDGET (AN INCREASE FROM THE 13.8 PERCENT FIGURE FOR 1973-1974). WE CANNOT ESTIMATE HOW MUCH OF ACTUAL DEFENSE EXPENDITURES MIGHT BE HIDDEN IN THE REST OF THE GOP BUDGET. NEITHER CAN WE BREAK THIS FIGURE DOWN BY CURRENT AND CAPITAL ACCOUNT EXPENDITURES. FURTHER, WE CANNOT MAKE ANY RELIABLE ESTIMATES AS TO HOW MUCH OF THIS BUDGET WILL BE USED TO PAY FOR
FOREIGN MILITARY
EQUIPMENT AND MATERIAL PURCHASES.

6. IT IS DIFFICULT TO ASSESS THE IMPACT OF THIRD COUNTRY MILITARY AND ECONOMIC ASSISTANCE, BUT WE BELIEVE IT TO BE SIGNIFICANT. FOR THE FORMER, THE BEST SOURCE OF INFORMATION IS THE DIA PUBLICATION "FOREIGN MILITARY ASSISTANCE (FOMA)." THIS SHOWS THAT FROM 1971 THROUGH MID-1974, THIRD COUNTRIES AGREED TO \$334.9 MILLION AND ACTUALLY DELIVERED \$202.3 MILLION OF MILITARY AID. THESE DATA DO NOT INCLUDE RECENT ITEMS SUCH AS SOVIET-SUPPLIED T-55 TANKS. NOR DO THESE DATA INCLUDE APPROXIMATELY \$75 MILLION OF MILITARY EQUIPMENT PURCHASED THROUGH THE FMS SYSTEM IN FY 1974 AND 1975. THESE AMOUNTS ARE SIGNIFICANT WHEN SET AGAINST PERU'S MILITARY BUDGET (SEE ABOVE). IT MUST ALSO BE RECALLED THAT PERU HAS NO
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LARGE INDUSTRIAL BASE, SO THAT ALL ITS HEAVY, SOPHISTICATED EQUIPMENT MUST BE PROCURED FROM ABROAD.

7. THIRD COUNTRY ECONOMIC ASSISTANCE APPEARS EQUALLY IMPORTANT. FOR EXAMPLE, IN 1973 AND 1974, PERU BORROWED ABOUT \$600 MILLION AND \$1,000 MILLION, RESPECTIVELY, FROM ABROAD. WHILE SOME OF THESE AMOUNTS WERE FOR DEBT REFINANCING, THE MAJORITY REPRESENTED LONG-TERM LOANS FROM THIRD COUNTRIES FOR

MAJOR PROJECT FINANCING. FOR EXAMPLE, IN 1974 PERU OBTAINED MORE THAN \$300 MILLION IN FINANCING FROM JAPAN FOR ITS OIL PIPELINE AND OIL EXPLORATION AND AGREED TO MORE THAN \$450 MILLION IN FOREIGN FINANCING FOR THE CUAJONE COPPER PROJECT, OF WHICH \$75 MILLION WAS IN THE FORM OF AN EXIM BANK LOAN AND GUARANTEE. PERU IS PRESENTING AN AMBITIOUS MAJOR PROJECT PROGRAM CALLING FOR \$3.5 BILLION IN NEW FOREIGN LENDING TO THE MEETING OF THE IBRD CONSULTATIVE GROUP SCHEDULED TO TAKE PLACE IN PARIS IN APRIL 1975.

8. U.S. ECONOMIC ASSISTANCE HAS NOT RECENTLY BEEN AN IMPORTANT FACTOR IN THE OVERALL PERUVIAN ECONOMY. THE AID PROGRAM IS NOT LARGE (LESS THAN \$20 MILLION PER YEAR), AND ACCESS TO EXIM BANK LOANS HAS ONLY RECENTLY AGAIN BECOME POSSIBLE. ON THE OTHER HAND, PERU HAS REGULARLY BEEN A CUSTOMER FOR CCC CREDITS AND WOULD LIKE TO OBTAIN MORE.

9. PERU IS IN THE MIDST OF A MASSIVE DEVELOPMENT PROGRAM IN THE INDUSTRIAL, AGRICULTURAL, MINING, AND OTHER SECTORS. THIS PROGRAM WILL REQUIRE VERY HIGH LEVELS OF CAPITAL INPUTS, MUCH OF WHICH AS INDICATED ABOVE MUST BE OBTAINED BY FOREIGN FINANCING. THIS WILL, OF COURSE, PUT SERIOUS STRESS ON PERU'S BALANCE OF PAYMENTS, BOTH IN THE SHORT-TERM AND THE MIDDLE-TERM. BECAUSE OF THIS AND VARIOUS DOMESTIC ECONOMIC AND FINANCIAL POLICIES, INTERNAL INFLATIONARY PRESSURES ARE EXPECTED TO CONTINUE GROWING. EVEN ASSUMING THAT PERU CAN FURTHER REDUCE IMPORTS ON NON-ESSENTIAL GOODS AND THAT THE GROWTH OF FOOD IMPORTS CAN BE REDUCED BY SUBSTITUTING DOMESTICALLY PRODUCED FOODSTUFFS, OVER THE NEXT TWO YEARS THE TRADE DEFICIT WILL PROBABLY CONTINUE TO WIDEN IN ABSOLUTE TERMS. MEANWHILE, THE SERVICE OF DEBT ACCUMULATED DURING THE 1973-1976 PERIOD WILL CONTINUE TO EXERT PRESSURE ON THE BALANCE OF PAYMENTS. THIS WILL REQUIRE A CONTINUED EFFORT TO REDUCE NON-PRODUCTIVE IMPORTS,

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TO INCREASE SAVINGS, AND TO OBTAIN THE MOST CONCESSIONARY TERMS POSSIBLE FOR PERU'S FOREIGN BORROWING.

10. SUBSTANTIAL EXPANSION OF MINERAL AND PETROLEUM OUTPUT AND EXPORT VOLUME WILL NOT BE ACHIEVED BEFORE 1978. THIS WILL FURTHER CONTRIBUTE TO PERU'S BALANCE OF PAYMENTS PROBLEMS.

11. A SUBSTANTIAL DEGREE OF SELF-SUFFICIENCY IN DEFENSE FINANCE AND PROCUREMENT IS NOT LIKELY, CERTAINLY NOT IN THE NEAR OR MIDDLE TERMS. WITH PERU'S LIMITED INDUSTRIAL BASE, ITS COMMITMENT TO A LARGE-SCALE DEVELOPMENT PROGRAM REQUIRING ENORMOUS RESOURCES, AND IN SPITE OF BALANCE OF PAYMENTS PROBLEMS AND OTHER PRESSURES ON THE PERUVIAN ECONOMY, WE EXPECT THAT PERU WILL CONTINUE TO TURN TO THE UNITED STATES AND THIRD COUNTRIES FOR ITS MILITARY EQUIPMENT AND MATERIEL PROCUREMENT.

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